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C O N F I D E N T I A L SECTION 01 OF 03 OTTAWA 000683

SIPDIS

STATE PASS PM/DDTC

E.O. 12958: DECL: 05/20/2018
TAGS: [PARM](#) [PREL](#) [MARR](#) [MOPS](#) [CA](#)
SUBJECT: ITAR: PM DAS RUGGIERO, CANADIANS DISCUSS EXPORT
CONTROLS

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this created a new requirement.) Ruggiero repeatedly underscored the need for Canada satisfactorily to implement the existing EOLs in a way that resolves the current impasse (reftel) prior to the next IWG, which may occur in June.

¶6. (C) DAS Ruggiero affirmed State's willingness to listen to Canadian government proposals to develop appropriate EOL-type arrangements for PWGSC, TC, and Canadian industry. He also pressed the Canadians to address U.S. concerns about the lack of bilateral cooperation on two key export violations cases (see paras 19-20), and noted that Canadian cooperation on such law enforcement issues would inform any decision about whether to extend EOL type arrangements to additional government departments and Canadian industry.

Canada's Confidence Building Efforts

CSIS ROLE IN SCREENING AND EXPORT CONTROL

¶7. (C) CSIS Assistant Director for Intelligence Ted Flanigan led an overview of his agency's role in Canadian government security (and immigration) screening and counter-intelligence (CI). According to Flanigan, one of CSIS' top three policy directives is to ensure that Canada does not become a staging ground for threats to the U.S. and other allies and friends.

¶8. (S) CSIS performs high-end elements of reliability screening, and all loyalty screening, for Canadian government agencies, he explained, while initial suitability and reliability screening are the responsibility of individual hiring agencies. Loyalty-based clearance denials are based on the risk of: espionage; foreign influence activities; links to terrorist organizations; support for political violence; or, if applicants' beliefs, character, or relationships could lead them to participate in one or more

of these activities.

¶9. (C) Flanigan said that CSIS spends considerable resources educating industry about CI threats by promoting "domain awareness." For example, CSIS urges companies to compartmentalize their production in order to protect sensitive technologies. This is a useful additional counter that can be accomplished without linking it to "ethnic identification," he observed.

¶10. (S) The agency also spends a great deal of energy combating Chinese, Russian, Iranian, and other espionage threats against Canada, according to Flanigan. Export control violation cases usually involve collectors using front companies to mislead Canadian authorities via fraudulent end-user documentation. CSIS refers such cases to the RCMP for law enforcement action. DAS Ruggiero asked how many investigations lead to prosecutions. Flanigan responded that transgressors usually face regulatory action that amounts to "many thousands of dollars" in fines.

RCMP ROLE IN EXPORT CONTROL

¶11. (S) Director General for National Security Criminal Investigations and Operations Bob Paulson briefed the RCMP's role as the "whole-of-government" lead for criminal prosecutions, and its deep collaboration with the FBI and U.S. intelligence agencies. Echoing Flanigan at CSIS, Paulson observed that the RCMP, like its U.S. law enforcement counterparts, faces challenges when it uses intelligence products to make criminal cases.

¶12. (C) Paulson noted that the RCMP has grown its customs and excise and counter-proliferation expertise since 2006. Indeed, he said, some 500 RCMP officers nationwide are now charged with enforcing customs and excise-related acts. Qcharged with enforcing customs and excise-related acts. Their priorities are strategic goods, tobacco, and firearms. The RCMP is developing an outreach program to the 2,500 companies on the controlled goods registry, he said, in order to make them aware of the indicators of illegal conduct.

¶13. (S) When asked by DAS Ruggiero if the RCMP had ever prosecuted an export violation case, Paulson said he was unaware of any, and explained that the "greater good" was often achieved by other means. (Comment: This was understood to mean exploiting wrong-doers for their intelligence value or turning cases over to regulators for civil sanction. End comment.)

CBSA ROLE IN EXPORT CONTROL

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¶14. (C) CBSA Strategic Export Controls Division Manager George Webb struck a discordant note, telling DAS Ruggiero that his (Webb's) hands were full targeting hundreds of mostly Iranian and Chinese foreigners and "lots of Canadian dual-nationals" involved in "non-legitimate businesses." They create front companies for the purpose of procuring defense technologies, he said.

¶15. (C) According to Webb, when CBSA agents arrest perpetrators, judges let them out on bail and they simply disappear. Webb said he was aware of about 25 cases involving export controls, but only one that resulted in jail time. "Canadian Judges do not appreciate the seriousness of these crimes," he said.

PWGSC's ROLE IN EXPORT CONTROL

¶16. (SBU) PWGSC supports the operations of the Department of National Defence by providing contracting and procurement services that in part are used for the procurement and sustention of defense articles and services. In the fulfillment of these functions, certain PWGSC personnel

require access to ITAR controlled defense articles and services.

¶17. (SBU) PWGSC also administers Canada's Industrial Security Program (ISP), which oversees contract security and controlled goods in the defense industry. ISP officials clear individuals and companies for government contracts requiring access to sensitive information. The agency screens officers in a company and, if they pass inspection, then moves on to the company and, finally, to line personnel.

Meanwhile, ISP's controlled goods program validates company requirements for registration, assesses company ownership and key officials, inspects facilities to ensure compliance with relevant regulations, assesses foreign visitors and temporary workers for security purposes, and refers potential prosecutions to the appropriate authorities.

¶18. (SBU) PWGSC is authorized to assess civil penalties of up to C\$2 million per day against non-conforming companies and corporate officers. According to Director General Gerry Denault, ISP's budget increased from C\$6 million in 2003 to C\$12.3 million in 2007, and by 2009 it should double again to C\$26 million. These substantial increases followed adverse findings published in the October 2007 Canadian Auditor General's report, which noted security lapses within PWGSC. Most of the new funding has been used to increase inspections as well as client outreach and education, and to beef up links to law enforcement agencies, he said.

ICE Calls for Canadian Cooperation

¶19. (S) Mission Canada-based Immigration and Customs Enforcement (ICE) officers briefed DAS Ruggiero on two current cases requiring, but not getting, Canadian cooperation. In the Kabatas case, CSIS officials have blocked cooperation with ICE to prosecute an individual involved in the fabrication and shipment to Iran of TOW missile parts. CSIS officials told ICE that they are collaborating on the matter in the intelligence lane with the CIA, a claim that Ottawa-based liaison officers have refuted.

The other case features a lack of regulatory oversight, and law enforcement interest, in Pratt & Whitney Canada's sale of U.S. military grade helicopter engine technology to China for use in its model "Z-10" attack helicopter. The same ICE officers briefed the case to PM/DDTC on May 13.

¶20. (SBU) The ICE officers argued that until the price to be paid for export control violations is the same in Canada as it is in the U.S. -- prison -- adversaries will persist in abusing Canada as a venue from which they can illegally procure and export U.S. defense technologies. They asked DAS Ruggiero to press the Canadians to cooperate on the Kabatas and Pratt & Whitney cases, and he did so directly with Flanigan, McKellips, and Meyboon-Hardy. The Canadians promised to follow up on these cases.

¶21. (U) DAS Ruggiero has cleared this message.

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